

Indicative Notice of LDZ Transportation Charges for North of England Distribution Network

To Apply from 1 October 2008

1 Introduction

This notice provides indicative levels of the LDZ transportation charges that will apply for the use of the Northern Gas Networks Limited (NGN) network from 1 October 2008, in accordance with the GT Licence requirements in Standard Special Condition A4, to provide 150 days' notice of such proposals.

The definitive notice of new distributions transportation charges from 1 October is expected to be published by 2 August, in line with the 60 days' notice requirements within the Uniform Network Code.

2 Indicative LDZ Transportation Charges effective from 1 October 2008

This year there is a change in the structure of LDZ Use of System Charges and so it is not meaningful to provide the usual indicative percentage change in distribution transportation charges relative to the previous year. Instead we are providing estimated unit rates that we anticipate will apply.

There is still uncertainty around the level of change that will be necessary at October and the figures provided are the present estimates. This could move up or down before final changes in charges are published in August.

The reasons for the level of change and the uncertainties surrounding the potential changes are explained in the following sections.

3 Reasons for Change in the Indicative Charge

Ofgem allows NGN to earn a specified allowed revenue in each year. A new five year price control settlement has been agreed with effect from April 2008. This has resulted in a real increase in the core Allowed Revenue of 6.8%, and so, all other things being equal, prices would need to rise in order to generate this higher level of allowed revenue within the six months to April 2008. However the final level of prices must then be adjusted to allow for a number of variables as described below.

3.1 Prior year adjustments

Ofgem sets allowed revenue from April to March each year. NGN then has to adopt a pricing strategy aiming to minimise any potential over or under recovery of revenue within the year. However prices can only be changed once a year, in October.

In October 2007, prices were increased in order to generate sufficient revenues in the second half of the year to compensate for lower Collected than Allowed Revenues in the first half and hence to achieve our target of no over or under recovery on Allowed Revenue for 2007/08.

These higher prices remained in force through the first half of the current year, and so we do not expect to need to increase prices in October 2008 to achieve our higher allowed revenue levels for 2008/09. In addition, the weather has been colder than anticipated resulting in an overrecovery in 2007/08.

3.2 Change in Business Rates

This cost is outside the control of Northern Gas Networks, and so is allowed by Ofgem as a cost pass-through item within the price control allowed revenue.

3.3 NTS Pensions payments

NTS has pension liabilities which were retained at sale and are now passed down to all the DNs and are allowed by Ofgem as a cost pass-through item within the price control allowed revenue.

3.4 Shrinkage

The price of gas is outside the control of Northern Gas Networks, and so has been separated from the core Allowed Revenue and allowed by Ofgem as an incentive mechanism within the price control allowed revenue.

3.5 Mains and Services Replacement Incentive

The distribution price controls are based upon an assumed cost each year for replacing distribution mains and service pipes. If a different mix of mains replacement activity is carried out, or if the activity is carried out more or less efficiently than assumed in the price control, this gives rise to a variation in the allowed revenue. The net position is difficult to forecast accurately as it depends on the length of mains decommissioned for six pipeline diameter bands, and is no longer smoothed across all the networks.

4 Uncertainties around Indicative Transportation Charges

The introduction of network specific charges in 2005 increased the level of uncertainty around the indicative charges, by removing the smoothing that a national charge provided. The indicative price change may change (up or down) when final transportation charges are published in August. The main causes of potential variation between the final price changes and the indicative figures shown are changes in demand forecasts, actual demand in the current year, actual mains replacement incentives and changes in gas prices.

The price changes depend upon forecasts of the throughput volumes, load factors and customer numbers by sector for the control year. These forecasts will be updated before August 2008 and will be taken into account in determining the definitive level of charges to apply from October.

Prices also depend on the outcome of the October AQ review process. An estimate can be made by mid July but the final level of SOQs will not be known until after prices have been set.

The definitive mains replacement incentive position for 2007/08 will not be known until July. This, together with the mains replacement performance over the next three months and any changes to the forecast mains replacement incentive position for the price control year, will affect the allowed price control revenue for 2007/08 and hence the under or over recovery and the price change required in 2008/09.

5 Structure of Distribution Transportation Charges

On 1st October 2008, as a result of a direction from Ofgem, the proportion of LDZ Use of System charges allocated between commodity and capacity charges will change. The current split is around 50-50 and this will move to 5% commodity based and 95% capacity based. This change is in order to make distribution charges more cost reflective. In addition, interruptible customers will begin to incur a capacity charge at a rate of 47.4% of the equivalent firm charges. This maintains their discount relative to a similar firm customer of 50% of LDZ Use of System charges, until the new interruption regime begins in 2011.

6 Impact on Gas Supply Prices

The extent to which any transportation charge is passed through to the consumer depends upon the shipper and the gas supplier.

The potential impact on gas supply prices will vary by size of consumer and network. For a typical consumer, distribution transportation costs represent approximately 15-20% of the gas supply price.

7 Estimated proposed Unit charges

Directly connected supply points

	Capacity	Commodity
	pence per peak day kWh per day	pence per kWh
Up to 73,200 kWh per annum	0.1227	0.0191
73,200 to 732,000 kWh per annum	0.1135	0.0177
732,000 kWh per annum and above	$0.5389 \times \text{SOQ}^{-0.1806}$	$0.1099 \times \text{SOQ}^{-0.2121}$
Interruptible customers 732,000 kWh per annum and above	$0.2554 \times \text{SOQ}^{-0.1806}$	

Connected Systems

	Capacity	Commodity
	pence per peak day kWh per day	pence per kWh
Up to 73,200 kWh per annum	0.1227	0.0191
73,200 to 732,000 kWh per annum	0.1135	0.0177
732,000 kWh per annum and above	$0.5699 \times \text{SOQ}^{-0.1939}$	$0.1049 \times \text{SOQ}^{-0.2131}$
Interruptible customers 732,000 kWh per annum and above	$0.2701 \times \text{SOQ}^{-0.1939}$	

Optional LDZ Charge

Pence per peak day kWh per day
$902 \times [(\text{SOQ})^{-0.834}] \times D + 772 \times (\text{SOQ})^{-0.717}$

LDZ Customer Capacity charges

	Capacity
	pence per peak day kWh per day
Up to 73,200 kWh per annum	0.0732
73,200 to 732,000 kWh per annum	0.0026
732,000 kWh per annum and above	$0.0559 \times \text{SOQ}^{-0.2100}$

LDZ Customer Fixed charges - 73,200 to 732,000 kWh per annum only

	Fixed
	pence per day
Non-monthly read supply points	23.0496
Monthly read supply points	24.5426

CSEP administration charge

	pence per day
Charge per supply point	0.1523 pence per day (£0.56 per annum)